The Maritime Life Assurance Company

1998 Annual Report

Relationships defined

MARITIME LIFE

This year's report celebrates relationships – those that have made our company a dynamic leader in the Canadian financial services industry. The relationships we have developed with customers, independent financial advisors, the community, and within our company are essential to the success we all share. They are part of our history and are the foundation to carry us into the future.

Welcome to the Maritime Life 1998 Annual Report

Maritime Life has been providing financial security to Canadians since 1922. In providing insurance and investment savings products to individuals, families and businesses across the country, we've demonstrated a commitment to quality that has earned us a position among Canada's top life insurers.

We are proud to be the largest Canadian insurance company to market individual life and investment products exclusively through independent financial advisors.

Maritime Life has more than 900 employees, each one dedicated to offering excellent service to their customers. From offices in Halifax, Montreal, Toronto, Kitchener, Calgary and Vancouver, employees use their knowledge, professional judgment and skills to meet and exceed customer expectations.

Since 1969, Maritime Life has been a wholly-owned subsidiary of The John Hancock Mutual Life Insurance Company of Boston, Mass.

Noteworthy

- Maritime Life's assets under administration top $6 billion; double the assets from five years ago
- through a network of 7,000 independent financial advisors, Maritime Life serves customers in every Canadian province
- more than 900 staff members service more than 500,000 customers
- while proud to be headquartered in Halifax, Nova Scotia, 85% of Maritime Life's customers are west of the Maritimes
- Maritime Life's parent company, The John Hancock Mutual Life Insurance Company, has $127 billion (US) assets under management
- Maritime Life has been the title sponsor of Swimming Canada's national championships since 1995; a relationship that continues through to the Olympic swim team trials in 2000

Financial Highlights (in millions of dollars)

	1994	1995	1996	1997	**1998**
Assets Under Administration	$3,366	$4,263	$4,746	$5,477	**$6,404**
Capital and Surplus	252	282	298	319	**348**
Total Revenue (General Fund only)	670	813	908	848	**862**
Total Revenue (including Segregated Funds)	855	950	1,234	1,536	**1,683**
Net Income to Shareholders (after tax)	21	24	22	27	**29**
Inforce Individual Premiums	91	172	183	197	**220**
Inforce Group Insurance Premiums and Premium Equivalents	309	355	377	412	**449**
Investment Product Assets Under Administration	2,348	2,652	3,025	3,612	**4,226**

Financial services are intangible. Perhaps as a result, relationships are especially important. We believe our success to date has greatly benefitted from the quality of those relationships and that they will be equally important to the future.

The future world will be distinctly different from the environment of the recent past. The pace of change in the life insurance industry in the past two years has been exceptional. It will continue to be hectic for another couple of years before returning to a more normal rate of evolution.

Perhaps the most dramatic changes have been in the nature of the personal distribution system. Historically, distribution has been dominated by the career agency system, in which agents would sell for only one company and work out of branch offices. In 1977, when Maritime Life decided to market only through independent agents, we were the only company in Canada with that strategy. As recently as three years ago more than three quarters of the business sold in Canada was by career agents. For all but the largest players, however, the economics of this form of distribution are very challenging. Accordingly, more and more companies have reduced or abandoned their commitment to career branches to the point that by the year 2000, no more than 30 per cent of the business sold in Canada will be through career agents.

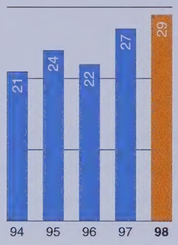
Industry consolidation continues at a rapid pace, affecting companies of all sizes. Of the ten largest insurance companies in Canada in 1993, half have been acquired by new owners in the last five years. If an urban customer looked for a life insurance company in the Yellow Pages in 1982, they would have found 40 to 50 companies, depending on the city. In 1999 they will find only 15 to 20.

During the next few years, the five large mutual life insurance companies will likely change to stock ownership. This heightens the possibility of further industry consolidation and is already affecting the way those companies conduct their affairs.

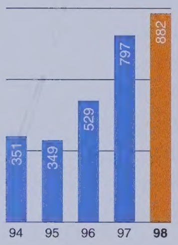
One area where change has been conspicuous by its absence is with banks. The banks have for years been pressing for the right to sell life insurance through their branches. As well, the dominant financial news stories in 1998 were the proposed bank mergers. But their ambitions won't be fulfilled, at least in the near term, because the banks failed to make the basic case that the mergers would be good for customers.

Canadians are now realizing the value of segregated funds, offered by life insurance companies. It has long been true that the inherent features of segregated funds provide superior value to customers. It is only recently that those features, together with especially valuable policyholder guarantees, have made segregated funds the major growth area in the funds business. Maritime Life has always been a leading player in that part of the business.

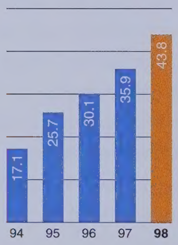
Profit Level
Millions of Dollars



Investment Products New Deposits
Millions of Dollars



New Individual Life Insurance Sales
Millions of Dollars



1998 Results

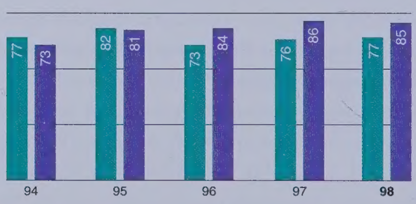
Against this backdrop of rapid and large scale industry change, I am pleased to report that Maritime Life has had another excellent year.

- Profits have grown from $27 million in 1997 to $29 million in 1998, reflecting improved expense performance and excellent group insurance results.
- Sales of individual insurance grew by $8 million to $44 million, a growth rate of 22 per cent and the fifth consecutive year of sales growth in excess of 20 per cent. During this same period, industry growth has typically been less than 5 per cent.
- Investment products sales grew by $85 million to $882 million, and notwithstanding the turbulence in financial markets, our segregated funds grew by 39 per cent to $3 billion at the end of 1998.
- Overall assets under management have now reached $6.4 billion.
- We continue to benefit from our longstanding relationships with many of Canada's top independent financial advisors. They too have had a very rewarding year and we are delighted they have made us such a large part of their success.
- Sales in our group insurance line decreased 10 per cent to $55 million.

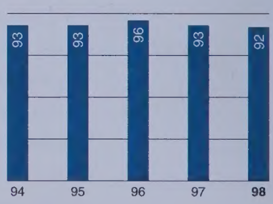
Overall Maritime Life continues to be the leading growth story in the Canadian life insurance industry.

Customer Satisfaction

■ **Life Insurance** ■ **Investment Products** (including pensions)
Percentage



Group Insurance
Percentage

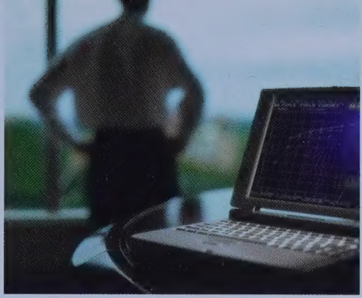


Group

This year's result of 92 per cent marks the sixth straight year in which overall customer satisfaction has topped 90 per cent. Consistency in customer satisfaction is important to us, as it is our aim to provide flexible, responsive service to all group customers each and every year. One measure of whether we are achieving this is our overall customer satisfaction rating.

Retail Life and Investment Products

Customer satisfaction results were comparable to 1997 notwithstanding unsettled stock markets and increasing customer needs for more policy information. In late 1998 we combined customer service activities for our life insurance and investment product areas which will allow us to adopt best practices from each area and lead to increasing customer satisfaction. A number of initiatives will be implemented in 1999 that will improve the timeliness and quality of our customer reports.



We will attract and retain some of the best minds in the business based on our successful track record, and on innovative compensation strategies and human resource policies.

Strategic Direction

While all employees at Maritime Life are proud of what has been achieved, we are anything but complacent about the future.

Historically our retail strategies have had relatively few imitators, particularly among large well-financed competitors. Those strategies have found considerable favour in the marketplace, but have also recently attracted attention. Although the total number of companies continues to decrease, we are already experiencing keener competition for the attention of independent financial advisors from companies we expect to be among the long-term players in the industry. We expect that sooner or later a bank or other non-traditional competitor will start to have success with marketing life company products through electronic commerce.

On the other hand, we feel that recent developments have improved prospects for our already successful group insurance division. As competitors centralize claim and service functions our commitment to full service regional offices becomes increasingly distinct. There will be fewer competitors, and they will all be stock companies, which should improve pricing discipline. Our continued excellence in customer satisfaction earns strong loyalty from existing customers and excellent references for future prospects.

Against this backdrop we will preserve those strategies that have been successful while looking for new ways to distinguish ourselves from others. We will maintain our commitment to selling through independent financial advisors while implementing new technologies that contribute to their productivity and reduce unit costs. Technology will be even more important to the productivity for our group offices, and we will continue to experiment with innovative work sharing arrangements between offices. We will create strategic partnerships with key mutual fund players that are far more than just lending our wrapper to their product. We will maintain solid financial strength while reducing risk from fluctuations in capital markets. We will attract and retain some of the best minds in the business based on our successful track record, and on innovative compensation strategies and human resource policies.

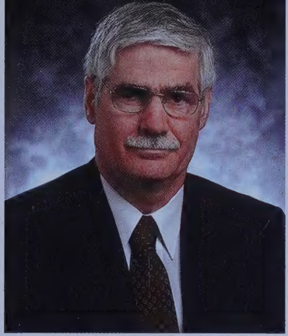
We will continue to leverage not only the excellent financial strength and image of John Hancock, but also their multiple capabilities in investments, technology, skills training, asset/liability matching, corporate marketing, and many other areas. By doing so, we can continue to outperform the Canadian industry during a period of unparalleled change.

WABlack

William A. Black
President and Chief Executive Officer

We are the largest life insurer in Canada to work exclusively with independent financial advisors to market our products. We partner with these professionals and believe the customer is best served by their expertise. We offer more than superior products, we provide regional service, local training and superior customer service to achieve our ultimate goal – a satisfied customer.

IN RELATION TO independent financial advisors



"Solid execution of our business strategies helped make 1998 Maritime Life's most profitable year."

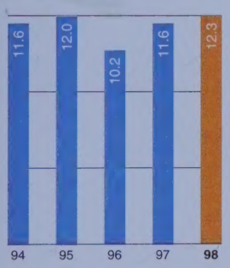
PHILIP POTHIER
Senior Vice President and Chief Financial Officer

Net Income

1998 was another year of consistent and excellent growth for profits and sales. Net income for 1998 rose to $29 million, an 8 per cent increase over the 1997 result of $27 million, representing a 12 per cent return on common equity.

The inforce business for each of our product lines grew - overall corporate growth exceeded 12 per cent. Concurrently, administrative expenses increased by only 6 per cent. Achieving business growth in excess of expense growth indicates that productivity improvements are being made.

Return on Common Equity
Percentage



Our experience with mortality and health claims during 1998 was within normal parameters. The number of group life and disability claims was better than expected and offset an increase in medical and dental costs. Individual life insurance mortality was excellent in 1998 – a similar result to our 1997 experience.

Credit losses on investment principal during 1998 were $8.7 million, close to the $9.1 million in 1997. The last two years are much improved over the prior two-year period when credit losses averaged $16 million. The outlook is relatively stable with a bias to further decreases in credit losses.

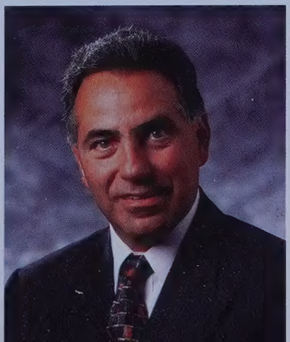
Life Insurance

New annualized life insurance premium sales for 1998 were $44 million, a significant jump from the $36 million recorded in 1997, while the industry as a whole is experiencing minimal growth. We attribute this success to our innovative products and our long-term relationship with independent financial advisors who offer informed advice in response to customer needs.

Investment Products

New investment product deposits of $882 million in 1998 exceed the strong growth experienced in 1997 when deposits reached $797 million. Sales for 1998 are especially gratifying considering the market volatility experienced in the summer. While we did observe a slowdown in sales, withdrawals did not increase during this turbulent period. With interest rates remaining relatively low, the majority of consumers were not motivated to move their investments into guaranteed interest contracts (GICs). Should interest rates rise and stock prices fall, we will expect to see movement from segregated funds to GICs. With our products, experience, and investment expertise in the field of guaranteed interest contracts, we are well-positioned to retain clients.

Bruce Etherington, president of Bruce W. Etherington Agencies (l) confers with Brian Heaney, Maritime Life vice president of sales and distribution for Ontario (r).



"Sales growth continues to be exceptional. The recent Talvest partnership will add to this momentum."

NORM AYOUB
Senior Vice President, Retail Marketing

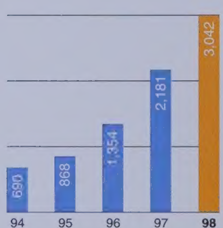
"Our continuing success depends on our ability to build long-term relationships."

Kirk McIntyre
Senior Vice President, Retail Services

Segregated Funds

The strong market performance in the past several years, coupled with very solid sales of Maritime's segregated funds has meant tremendous asset growth in this area. As at December 1995, these assets stood at $867 million while by the end of 1998 the total is over $3 billion – more than tripling in three years. Segregated funds are investment products, offered only by insurance companies, that provide the benefits of mutual funds with powerful capital protection opportunities, including guarantees at death and maturity and creditor protection and probate bypass. Maritime Life's funds provide a wide variety of options to the customer: investment type (bonds, high dividend stocks, stocks for capital appreciation), investment bias (conservative or aggressive), and geographical focus (Canada, U.S., Europe, Asia.)

Segregated Fund Assets
Millions of Dollars



A New Strategic Alliance

During 1998 Maritime Life entered into a partnership with Talvest Fund Management Inc., a well-respected Canadian mutual fund management company. This initiative is marketed under the Synchrony family of funds and was well received during its introduction in the fall of 1998. An effective combination of Talvest's tactical asset allocation expertise and Maritime Life's segregated fund experience and unique guarantees create a powerful mix, to which Talvest and Maritime Life contribute high performance funds, covering five different investor profiles. Each Synchrony fund is constructed by combining portions of Maritime and Talvest funds to create a fund with desired investment attributes. The segregated fund contract provides important guarantees in the event of death and at the maturity of the contract.

Group Insurance

Group insurance sales were $55 million, 10 per cent lower than the $62 million posted during 1997. In response to the competitive environment of the past few years, our sales strategy in the group division shifted during 1998 to concentrate more on medium-sized employers while selectively underwriting companies with a large number of employees. As a result of this shift, sales of new group insurance plans were lower than 1997. Our total business continues to grow as we add new customers faster than the loss of existing customers. Our continued focus on and commitment to excellent service has led to the development of long-standing and positive relationships with our group customers.

New Group Insurance Premium
Millions of Dollars

"For six years running, more than 90 per cent of customers were satisfied or very satisfied with our service."

Bob Nicholas
Senior Vice President, Group Insurance

Group customer, Ellen Woods, (middle) personnel manager for BC Colleges, works closely with a team of Maritime Life professionals, including Anthony May, manager of group sales in British Columbia and Sharon McAllister, disability case manager.

IN RELATION TO customers

Finding ways to better serve our customers is of paramount importance to our continued success. Maritime Life encourages employees to use knowledge, judgment and skill to meet and exceed customer expectations. Employees at all levels of the company are empowered to do what is best for the customer.

Maritime Life believes in supporting the communities where employees live and work through gifts of time and money and employees determine where charitable money should be allocated. The company's annual giving campaign encourages donations by matching employee contributions dollar-for-dollar. Maritime Life is a proud sponsor of Swimming Canada and will be the title sponsor of the Maritime Life Nationals in 1999 and the 2000 Olympic Trials.

IN RELATION TO communities

Premium Revenue

There continues to be a significant shift by consumers to purchase segregated funds. While this is very positive for business growth, our total revenue premium shows only 1 per cent growth because under accounting standards, segregated funds aren't included in revenue premiums. Combining new segregated fund deposits in 1998 with reported revenue provides a more accurate reflection of our position and 10 per cent growth:

Including Segregated Fund Deposits (millions)	**1998**	**1997**
Individual Life Premium	$ 205	$ 171
Group Insurance Premium and Premium Equivalents	285	265
Investment Product Revenue Premium	864	799
Total Revenue Premium and Seg. Fund Deposits	$1,354	$1,235

Excluding Segregated Fund Deposits (millions)	**1998**	**1997**
Individual Life Premium	$ 205	$ 171
Group Insurance Premium and Premium Equivalents	285	265
Investment Product Revenue Premium	64	110
Total Revenue Premium per Statements of Income	$ 554	$ 546

Investment Income

Net investment income dropped $22 million in 1998. Several factors contributed to this drop. A portion of our general fund is invested in stocks to properly match contract promises related to stock market indices. The relatively poor performance of the Canadian stock markets in 1998 compared with 1997 led to a decline in investment income of about $14 million. Other contributing factors include policyholder preference for segregated fund investments and declining interest rates over the last several years.

Other Revenue

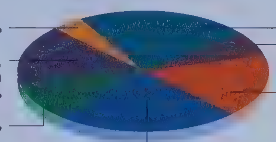
Growth in our segregated fund business drove a significant increase in fee revenue. Segregated fund fee revenue rose 60 per cent in 1998 to $48 million from $30 million in 1997.

Balance Sheet

New investment product deposits have been primarily invested in our segregated funds, which are not reported within the general fund balance sheet. While total assets under management including segregated funds have risen from $5.5 billion at December 1997 to $6.4 billion at December 1998, general fund assets alone have seen limited growth. As long as consumers continue to prefer segregated funds we do not expect strong growth in this area.

General Fund Investment Mix

As at December 31, 1998

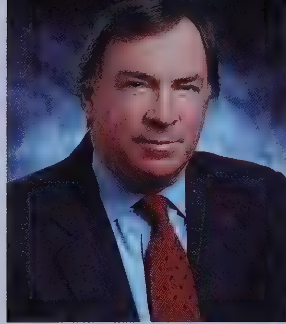


To diversify risk, the company invests its general fund assets in a wide variety of assets, industries, and locations.

- Canadian Mortgage and Housing Corporation (CMHC) government-insured mortgages (23 per cent of invested assets) covering residential developments, in cooperation with the Government of Canada and private developers, provide housing to Canadians across the country.
- Government bonds (6 per cent) represent obligations of federal and provincial entities across Canada. Government bonds generally have excellent credit ratings and are highly liquid. The combination of government-insured mortgages and government bonds means 29 per cent of assets are backed by the strength of the federal and provincial governments of Canada.
- Private placement bonds (17 per cent), which represent investments across the North American economy, range from the fishing industry in the east coast, to oil and gas in the west, and manufacturing, retailing, and power generation from sea to sea. These types of bonds are typically funded by a few lenders and are not generally available to the investment community nor widely bought and sold, as is the case for publicly-traded bonds.
- Conventional mortgages (24 per cent) provide financing for real estate in office buildings, retail outlets, warehouse operations, and residential developments.
- Corporate bonds (10 per cent) are publicly traded and provide good liquidity.
- Equities, real estate, cash and short-term investments (15 per cent) provide additional asset diversity.

The balance of invested assets is 5 per cent while non-invested assets of $147 million account for the remainder of the balance sheet assets.

Several Maritime Life employees from Montreal spent a weekend at Sainte-Anne's Veterans Hospital, Sainte-Anne de-Bellevue, giving a family room a brand new look. Team members shown include (left to right): Michele Marcil, Sharon Kelly, Marie O'Reilly, Joyce Luffy, Mario Savaria



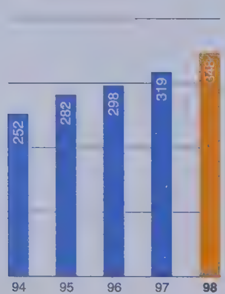
"Investment focus has been on higher quality bonds and government-insured mortgages in a year of modest general fund growth. Asset losses are showing an encouraging downward trend due to the recovery of most real estate markets."

PETER STUART
Senior Vice President and Chief Investment Officer

Minimum Continuing Capital and Surplus Requirements (MCCSR)

The Office of the Superintendent of Financial Institutions (OSFI) sets out guidelines for the minimum level of capital and surplus required of a Canadian life insurance company. As of December 1998, Maritime Life held eligible capital and surplus at a level equal to 193 per cent (177 per cent in 1997) of the required minimum. The company maintains its capital and surplus between 150 per cent and 200 per cent of the required minimum and monitors industry capital levels to assess the ongoing appropriateness. The larger Canadian mutual insurance companies have reported levels of capital in excess of 200 per cent while the large stock companies in Canada have been under 200 per cent. The possible transition of the five large Canadian mutual insurance companies to stock companies may put downward pressure on these ratios. The Canadian banks have recently operated at about 130 per cent of their minimum requirements. Because the insurance industry and the banks directly compete in some product areas, it would be appropriate for capital levels within the financial services sector to eventually reach more common ground.

Capital and Surplus
Millions of Dollars



Ratings

Our financial and fiscal strength is monitored by external rating agencies. Favourable ratings give comfort to our policyholders, customers and investors that the company is prudently managed.

AM Best	–	A+ (superior)
Moody's Investor Service	–	A1 (good financial strength)
TRAC	–	7- out of 8
Dominion Bond Rating Service	–	P-2 (satisfactory credit quality)

Year 2000

Maritime Life has completed an inventory of affected systems and equipment and is executing remediation, implementation and testing including internal and external resources, equipment upgrades, contingency and communication plans. At the end of 1998, most mission critical systems have been fixed and tested for dates in the year 2000.

The costs of the Year 2000 project are based on management's best estimates and are subject to some uncertainty. The total cost of the project is estimated to be $5.6 million including contingencies. By December 31, 1998, Maritime Life had spent $3 million to resolve the Year 2000 issue. The cost of new equipment and software are capitalized in accordance with the Company's accounting policy for capital assets. Other costs are expensed as incurred.

The efforts to address the Year 2000 issue have Maritime Life's highest priority. While there can be no absolute assurance that the Year 2000 project will address every problem, or will be completed as scheduled, management believes that, given the progress achieved to date, the thoroughness of the plan and the quality of the resources assigned to the project are appropriate to achieve our goal.

Several members of the workload task team determine what is a reasonable workload for employees. Left to right: Lorraine Porter, Mike Kelly, Gisele Arsenault

IN RELATION TO ourselves

Employees are the essence of Maritime Life. We respect each other's ideas and make decisions by consulting those directly affected. The company places a high value on developing people. Employees receive a financial contribution to develop their careers. We invest in people by providing opportunities to work in other areas through job rotations; a way to learn, grow and enrich job satisfaction We believe you must have satisfied employees to have satisfied customers.

"Our long association with Maritime Life should truly be considered a partnership rather than the traditional parent/ subsidiary relationship," says Steve Brown, John Hancock chairman and chief executive officer. "Both companies have gained in areas such as product development, technology, distribution, management development and investment. This continuous interchange of ideas has provided an advantage no one contemplated when we first began."

IN PARTNERSHIP FOR 30 years

Bill Black, Maritime Life president and chief executive officer meets with Steve Brown, John Hancock chairman and chief executive officer at John Hancock's head office in Boston, Massachusetts.

1999. A milestone year.

In 1969, Maritime Life became a wholly-owned subsidiary of The John Hancock Mutual Life Insurance Company of Boston, Massachusetts. Since that time, the two companies have become close strategic partners sharing an ongoing exchange of information and expertise. Maritime Life benefits from the size and scope of John Hancock's operations and from being associated with one of the most respected and financially-strong insurers in the United States.

John Hancock has never been in a stronger financial position and the company announced plans to demutualize in 1998; a process of converting from a mutual company (owned by policyholders) to a stock company.

The company believes demutualization will give it access to capital and stock currency to compete in a rapidly-changing financial services marketplace. With the additional capital, John Hancock will enhance its products and distribution channels as well as improve its customer service and technology systems. Although the demutualization has no affect on the operations of Maritime Life or its policyholders, it is a momentous step for the future of John Hancock.

The future looks good for both companies. "As John Hancock enters into a new corporate form as a public company next year, we look forward to our continued partnership which will benefit both John Hancock and Maritime Life," concludes Steve Brown.

The Maritime Life Assurance Company

FINANCIAL STATEMENTS

Management

The accompanying financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The financial statements necessarily include amounts that are based on management's best estimates and judgment. These financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls, consistent with reasonable cost, designed to ensure that the financial information produced is relevant and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

Board of Directors

As required by the Insurance Companies Act, the financial statements were approved by the Board of Directors which has overall responsibility for their content.

Audit Committee

The Board of Directors is assisted in its responsibility by its Audit Committee, which consists entirely of Directors not involved in the daily operations of the Company, the majority of whom are not affiliated with the Company. The function of the Audit Committee is to:

- review the annual financial statement of the Company before the annual financial statement is approved by the Board of Directors; require the management of the Company to implement and maintain appropriate internal control procedures; review such investments and transactions that could adversely affect the well-being of the Company as the External Auditor, Internal Auditor or any officer of the Company may bring to the attention of the Committee;
- meet with the External Auditor to discuss the annual financial statements and transactions as required;
- meet with the Appointed Actuary of the Company to discuss the parts of the Annual Statement prepared by the Appointed Actuary;
- meet with the Internal Auditor of the Company and with management of the Company to discuss the effectiveness of the internal control procedures established for the Company;
- report to the Board of Directors on the review of the annual financial statements before approval of the Board of Directors is given.

In carrying out this function, the Committee meets with management and both the Company's external and internal auditors to approve the scope and timing of the respective audits, to review their findings, and to satisfy itself that the audit responsibilities have been properly discharged.

The Appointed Actuary

- is appointed by the Board of Directors.
- is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.
- is required to provide an opinion regarding the appropriateness of the policy liabilities as at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.
- is required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company until December 31, 2001 under adverse economic and business conditions.

External Auditors

KPMG LLP have been appointed external auditors pursuant to Section 337 of the Insurance Companies Act to report to the policyholders, shareholders and to the Office of the Superintendent of Financial Institutions Canada regarding the fairness of presentation of the Company's financial position and results of operations as shown in the annual financial statements. Their report appears with these financial statements.

William A. Black
President and
Chief Executive Officer

Philip J. Pothier
Senior Vice-President and
Chief Financial Officer

Auditors' Report

To the Policyholders and Shareholders of
The Maritime Life Assurance Company

We have audited the balance sheets of The Maritime Life Assurance Company as at December 31, 1998 and 1997 and the statements of income, retained earnings, participating account, cash flows and changes in segregated fund assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP

KPMG LLP
Chartered Accountants
Halifax, Canada, January 26, 1999

Appointed Actuary's Report

To the Policyholders and Shareholders of
The Maritime Life Assurance Company

I have valued the policy liabilities of The Maritime Life Assurance Company for its balance sheets at December 31, 1998 and 1997 and their change in the statements of income for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholders' obligations and the financial statements fairly present the result of the valuation.

Byron Corner

Byron Corner
Fellow, Canadian Institute of Actuaries
Halifax, Canada, January 26, 1999

Balance Sheets

December 31, 1998 and 1997 *(In thousands of dollars)*

		1998	1997
Assets	Invested assets *(note 2)*		
	Bonds	$ 1,063,911	$ 1,018,180
	Government insured mortgages	745,553	890,062
	Conventional mortgages	774,025	792,973
	Equities	380,814	307,231
	Real estate	84,117	86,384
	Policy loans	72,597	75,234
	Cash and short-term investments	93,755	9,090
		3,214,772	3,179,154
	Other assets		
	Premiums receivable	19,126	34,429
	Accrued investment income	23,419	23,955
	Other *(note 4)*	104,042	58,727
		146,587	117,111
		$ 3,361,359	$ 3,296,265
	Segregated fund assets under management	$ 3,042,226	$ 2,180,872
Liabilities, Participating Account and Shareholders' Equity	Policy liabilities *(notes 7 and 8)*		
	Provision for future policy benefits	$ 2,501,032	$ 2,594,032
	Provision for experience rating refunds	23,896	7,485
	Provision for policyholders' dividends	6,645	7,784
	Policyholders' funds on deposit	230,478	111,262
	Benefits payable and provision for unreported claims	47,044	40,140
	Notes payable to reinsurers *(note 9)*	113,126	114,473
		2,922,221	2,875,176
	Deferred income taxes	77	2,951
	Deferred net gains *(note 10)*	42,578	43,641
	Other *(note 11)*	48,793	55,101
		3,013,669	2,976,869
	Subordinated debt *(note 12)*	70,000	70,000
	Participating account *(note 13)*	2,550	1,978
	Shareholders' equity:		
	Share capital *(note 14)*	88,745	88,745
	Retained earnings	186,395	158,673
		347,690	319,396
See accompanying notes to financial statements		$ 3,361,359	$ 3,296,265

On behalf of the Board:

J. Dickson Crawford
Chairman of the Board

William A. Black
President and Chief Executive Officer

Statements of Income

Years ended December 31, 1998 and 1997 *(In thousands of dollars)*

	1998	1997
Revenue		
Premiums *(note 8)*	$ 554,503	$ 546,120
Investment income *(note 15)*	241,142	262,707
Other income	66,042	39,426
	861,687	848,253
Policy benefits and expenses		
Policy benefits *(note 8)*	587,514	605,357
Provision for future policy benefits	(97,183)	(129,864)
Transfer to segregated funds	103,289	140,081
Commissions and operating expenses *(note 8)*	183,990	161,404
Dividends to policyholders	9,823	11,657
Premium and investment income taxes	16,582	13,620
Interest on notes payable *(note 9)*	9,539	9,386
	813,554	811,641
Operating income before interest on subordinated debt and taxes	48,133	36,612
Interest on subordinated debt *(note 12)*	(5,250)	(4,625)
Income taxes *(note 16)*	(12,933)	(9,617)
Undistributed participating policyholders' (income) loss	(572)	4,778
Net income to shareholders *(note 17)*	$ 29,378	$ 27,148

Earnings per common share (note 18)
See accompanying notes to financial statements

Statements of Retained Earnings

Years ended December 31, 1998 and 1997 *(In thousands of dollars)*

	1998	1997
Balance, beginning of year	$ 158,673	$ 156,744
Net income to shareholders	29,378	27,148
Dividends to shareholders:		
Preferred	(1,656)	(1,219)
Common	—	(24,000)
Balance, end of year	$ 186,395	$ 158,673

See accompanying notes to financial statements

Statements of Participating Account

Years ended December 31, 1998 and 1997 *(In thousands of dollars)*

	1998	1997
Balance, beginning of year	$ 1,978	$ 6,756
Undistributed participating policyholders' income (loss)	572	(4,778)
Balance, end of year	$ 2,550	$ 1,978

See accompanying notes to financial statements

Statements of Cash Flows

Years ended December 31, 1998 and 1997 *(In thousands of dollars)*	1998	1997
Cash flows from operating activities		
Net income to shareholders	$ 29,378	$ 27,148
Adjustments for:		
Realized investment gains (losses), net	(770)	(312)
Amortization of deferred realized and unrealized capital gains	(16,759)	(20,369)
Amortization of net discounts on investments	(7,131)	(6,766)
Depreciation and amortization of capital assets	5,346	4,439
Net provisions and write-offs for impaired invested assets	8,656	9,054
Interest capitalized on invested assets	(5,105)	(5,550)
Interest credited to policyholders' funds on deposit	6,552	7,580
Deferred income taxes	(2,874)	(8,595)
Decrease in provision for future policy benefits	(77,728)	(116,961)
Decrease (increase) in premiums receivable	15,303	(7,590)
Decrease in accrued investment income	536	3,122
(Increase) in other assets and other liabilities, net	(43,244)	(2,014)
Increase (decrease) in policy liabilities and accruals, net	118,221	(1,439)
Decrease (increase) in other, net	655	(3,701)
Cash flows from operating activities	31,036	(121,954)
Cash flows from investing activities		
Sales, maturities, prepayments and scheduled redemptions of:		
Bonds	503,434	623,670
Equities	38,715	47,136
Real estate	12,029	6,851
Policy loans	16,754	20,100
Mortgage loans	326,889	287,965
Purchase / issue of:		
Bonds	(543,642)	(645,797)
Equity securities	(105,783)	(48,433)
Real estate	(260)	(192)
Policy loans	(10,103)	(11,535)
Mortgage loans	(179,777)	(174,785)
Property and equipment	(2,971)	(5,976)
Cash flows used for investing activities	55,285	99,004
Cash flows from financing activities		
Issue of subordinated debt	—	24,000
Dividends paid	(1,656)	(25,219)
Cash flows from financing activities	(1,656)	(1,219)
Increase (decrease) in cash and cash equivalents	84,665	(24,169)
Cash and equivalents beginning of year	9,090	33,259
Cash and equivalents end of year	$ 93,755	$ 9,090

See accompanying notes to financial statements

Statements of Changes in Segregated Fund Assets

Years ended December 31, 1998 and 1997 *(In thousands of dollars)*

	1998	1997
Segregated fund assets, beginning of year	$ 2,180,872	$ 1,353,588
Increase during the year		
Amounts received from policyholders	1,588,907	828,526
Amounts (transferred to) received from the General fund	24,400	(13,169)
Interest income	65,109	39,976
Dividends	26,352	17,153
Net realized gain on sale of investments	168,303	148,654
Net unrealized increase in market value of investments	(17,157)	62,168
	1,855,914	1,083,308
Decrease during the year		
Amounts withdrawn by policyholders	(913,421)	(221,186)
Management fees and other operating costs	(58,931)	(34,838)
Distributions paid	(22,208)	—
	(994,560)	(256,024)
Segregated fund assets, end of year	$ 3,042,226	$ 2,180,872
Segregated fund assets consist of:		
Cash and short-term investments	$ 774,672	$ 454,815
Bonds	568,414	403,070
Mortgages	—	3,416
Equities	1,699,140	1,319,571
	$ 3,042,226	$ 2,180,872

See accompanying notes to financial statements

(In thousands of dollars)

The Maritime Life Assurance Company (the "Company") is incorporated under a special Act of the Nova Scotia Legislature and pursuant to that Act is under the supervision of the federal Insurance Companies Act. It operates in the Canadian life insurance industry and operations cover the development and marketing of individual life and savings, group life and health, and pension funds.

The Company is subject to regulation by the Office of the Superintendent of Financial Institutions Canada ("OSFI".) Under regulations and guidelines prescribed by OSFI, the Company is required to maintain prescribed levels of capital which are dependent on the type and amount of insurance policies in force and the nature of the Company's assets. The Company currently exceeds these minimum capital requirements. OSFI governs the distribution of the Company's earnings through monitoring of adherence to prescribed capital requirements.

1. Significant Accounting Policies

These financial statements have been prepared in accordance with Subsection 331(4) of the Insurance Companies Act which states that, except as otherwise specified by OSFI, the financial statements are to be prepared in accordance with generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to generally accepted accounting principles.

Bonds and Mortgages

Bonds and mortgages are carried at amortized cost, net of any allowance for losses. The difference between the proceeds on the sale of a security and its amortized cost is considered to be an adjustment of future portfolio yield and is deferred on the balance sheet and amortized to income over the remaining term to maturity.

The Company ceases to accrue interest on loans that are three months or more in arrears and considers these loans to be impaired as well as any loans that are deemed by management to be non-performing. Events and conditions considered in determining the charge to income during the year relating to the allowance for loan impairment include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of the current economic conditions. Impaired loans are valued at an amount equal to the estimated net cash flows receivable, discounted at the effective interest rate inherent in the loan at the time of impairment. Any writedown is recognized immediately in income as a charge for loan impairment.

Upon restructuring, impaired loans are recorded at an amount equal to the net cash flows receivable under the modified terms, discounted at the effective interest rate inherent in the loan at the time it was initially recognized as being impaired. Any reduction in the recorded investment is recognized in income as a charge for loan impairment. When collection of the scheduled future cash flows is reasonably assured, interest income is recognized, using the above inherent effective interest rate.

Equities

Equities are generally carried at moving average market value whereby the carrying value is adjusted towards market value at 15% per annum. Net realized gains and losses on the disposal of equities are deferred and amortized to income at 15% per annum on a declining balance basis. A decline in market value for the portfolio of equities that is considered to be other than temporary is recognized immediately.

Certain universal life insurance products permit a policyholder to choose a stock market based index as an investment option for the accumulated savings component of the policy. To support this liability, the Company has simulated these indices by investing in groups of common stocks or index futures. These groups of stocks or futures are accounted for on a market value basis in order to match the market value of the liability.

Real Estate

Real estate held for investment, which includes own-use property, is carried at moving average market value whereby the carrying value is adjusted towards market value at 10% per annum. Net realized gains and losses are deferred and amortized to income at 10% per annum on a declining balance basis. Market values on each property are determined annually and an independent appraisal is obtained every three years. The market value established is an estimate of the realizable value of each property and thus recognizes in that determination an element of depreciation. A decline in market value of the portfolio of real estate that is considered to be other than temporary is recognized immediately.

Real estate acquired on foreclosure and held for sale is carried at the lower of the investment in the loan foreclosed and the estimated net proceeds from sale of the property. Real estate acquired on foreclosure and held for income production is initially recorded at the lower of the investment in the loan foreclosed and the fair value of the assets. Subsequently, foreclosures held for income production are accounted for as investments. For both classifications, writedowns are recognized immediately in income as a charge for loan impairment in the year.

Policy Loans

Policy loans are carried at their unpaid balance and are secured by the cash surrender values of the policies against which the respective loans were made.

Derivative Financial Instruments

The Company uses derivative financial instruments to hedge specific transactions; any gains or losses, whether realized or unrealized, are recognized in income on the same basis as the asset or liability that has been hedged.

Other Assets

Other assets include furniture and equipment that are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over periods from four to seven years.

Policy Liabilities

Policy liabilities have been calculated using the policy premium method. The process of calculating policy liabilities necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future investment losses, future expense levels and rates of surrender. Consequently, policy liabilities include appropriate provisions for adverse deviations from those estimates.

Income Taxes

Income taxes are accounted for using the accrual method of tax allocation on a discounted basis. Under this method, a provision for deferred income taxes arises as a result of timing differences between income reported for financial statement purposes and for tax purposes. The major timing differences relate to policy liabilities, depreciation and invested assets.

Pension Expense and Obligation

The pension expense for the year is the pension benefit cost and includes adjustments for plan amendments and experience gains and losses which are being amortized on a straight-line basis over the expected average remaining service life of the plan participants and adjustments for interest on surplus.

Segregated Fund Assets

Certain policy contracts allow the policyholder to invest in segregated investment funds of the Company. The assets of these funds are carried at their year-end market values. The income for these funds includes all realized and unrealized gains and losses, net of related expenses and is included in the value of the fund. Substantially all risks and rewards of ownership accrue to these policyholders; consequently, assets held in segregated fund accounts are not consolidated with the assets of the Company. Cash flows associated with premiums and surrenders of segregated fund policies are initially recorded in the general account and then transferred to or from the segregated account on a net basis so that the segregated accounts business is maintained separately from the general account business.

2. Invested Assets and Fair Values

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties under no compulsion to act. Although quoted market values are a good source of fair value, not all financial instruments have an available trading market. In addition, fair value refers to value at a point in time and is not indicative of future value.

The Company's business involves the exchange of financial instruments. A financial instrument is defined as any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party. A basic function of the business is to match assets with liabilities to be able to meet the long-term obligations to policyholders.

The fair values of the policy liabilities cannot practicably be determined. To the extent that invested assets are accurately matched to policy liabilities, changes in the fair values of the assets due to interest rate changes will have a similar effect on the policy liabilities and will not affect future corporate earnings. The assets supporting the policy liabilities have a fair value of $3,252,959 (1997 - $3,166,827). In addition, deferred net gains of $40,882 (1997 - $38,496) have been taken into account in the determination of policy liabilities. Details of significant terms and conditions, exposures to interest rate and credit risks on policy liabilities are discussed in note 7.

The following indicates the fair value and the carrying value of the Company's assets at December 31. Although real estate is not a financial instrument, it has been included in the table for completeness. For derivatives, see note 5. The fair values shown are not indicative of the overall fair value of the Company.

Asset Valuation

The fair values of cash and short-term investments, policy loans and other assets are estimated to be carrying value due to the nature of these assets. Fair values of bonds and equities are derived from available quoted sources where a ready market exists.

The fair values of mortgages, private placement bonds and equities are calculated by discounting scheduled cash flows through the estimated maturity, using market discount rates. Fair values for real estate are based on the most recent independent appraisal available *(note 1)*.

		1998 Fair Value	1998 Carrying Value	1997 Fair Value	1997 Carrying Value
Assets					
Bonds	- government	$ 242,033	$ 186,420	$ 216,015	$ 172,665
	- public	380,072	334,623	368,946	324,195
	- private placements	605,916	542,868	568,625	521,320
Mortgages	- government insured	805,326	745,553	953,710	890,062
	- commercial	669,874	620,154	680,628	635,204
	- residential	166,207	153,871	169,051	157,769
Equities	- preferred	161,010	157,743	150,612	145,213
	- common	110,544	110,078	92,632	91,896
	- private placements	51,046	46,883	51,347	48,884
	- other	66,110	66,110	21,238	21,238
Real estate	- foreclosed	13,645	11,771	9,205	7,154
	- investment	75,479	72,346	71,730	79,230
Policy loans		72,597	72,597	75,234	75,234
Cash and short-term investments		93,755	93,755	9,090	9,090
Other assets		146,587	146,587	117,111	117,111

Cash and Short-term Investments

These investments have an aggregate principal amount of $93,755 (1997 - $9,090) with effective interest rates of 4.60% to 5.17% (1997 – 3.5% to 4.47%). Interest is calculated daily and receivable monthly.

Bonds

Interest is calculated daily and paid semi-annually on government and public bonds. Private placement bonds have interest calculated and paid according to specific contracts. Exposure to credit risk is managed primarily through compliance with quality rating and maximum single issuer guidelines.

	1998 Effective Rates	1998 Carrying Value	1997 Effective Rates	1997 Carrying Value
Government	5.82 %	$ 186,420	6.33 %	$ 172,665
Corporate	6.30	877,491	6.90	845,515

The term to maturity for bond investments, which generally match estimated liability maturities, are as follows:

Term to maturity	1998 Fair Value	1998 Carrying Value	1997 Fair Value	1997 Carrying Value
Current	$ 66,076	$ 59,122	$ 53,218	$ 49,242
1-5 years	352,081	306,050	373,861	331,543
6-10 years	305,889	300,112	277,413	277,109
Over 10 years	503,975	398,627	449,094	360,286
	$ 1,228,021	$ 1,063,911	$ 1,153,586	$ 1,018,180

Mortgages

The carrying value of mortgages is amortized cost less allowances for loan impairment. Interest is generally calculated monthly. Credit risk is managed through a program of diversification of type and location of properties, maximum single borrower guidelines and regular borrower and appraisal reviews.

	1998			1997		
	Carrying Amount	Effective Interest Rates	Average Maturity (years)	Carrying Amount	Effective Interest Rates	Average Maturity (years)
Government insured	$ 745,553	7.66 %	3.81	$ 890,062	7.96 %	3.63
Commercial	620,154	8.90	5.85	635,204	9.12	5.08
Residential	153,871	8.42	3.82	157,769	7.94	4.05
	$ 1,519,578			$ 1,683,035		

Mortgages are secured primarily by first recourse to the underlying property and virtually all are fixed term in duration.

3. Impaired Investments

Investments classified as non-performing are as follows:

	1998			1997		
	Book Value	Allowance For Loan Impairment	Carrying Value	Book Value	Allowance For Loan Impairment	Carrying Value
Mortgages						
Commercial	$ 100,475	$ (23,023)	$ 77,452	$ 114,406	$ (22,161)	$ 92,245
Bonds	3,638	(1,900)	1,738	–	–	–
	$ 104,113	$ (24,923)	$ 79,190	$ 114,406	$ (22,161)	$ 92,245

In addition, the policy liabilities include provisions for potential future asset default losses *(see note 7)*.

The continuity of the allowance for loan impairment during the year was as follows:

	1998	1997
Balance, beginning of year	$ 22,161	$ 21,374
Provision for loan impairment	6,834	5,703
Reduction due to dispositions	(3,180)	(4,916)
Write-offs of loans, net of recoveries	(892)	–
Balance, end of year	$ 24,923	$ 22,161

4. Other Assets

At December 31, other assets consist of:

	1998	1997
Furniture and equipment	$ 59,367	$ 57,172
less: accumulated depreciation	(48,818)	(44,153)
	10,549	13,019
Advances to segregated funds	7,372	8,485
Deferred pension costs	12,070	8,629
Miscellaneous receivables	74,051	28,594
	$ 104,042	$ 58,727

5. Derivative Financial Instruments

The Company uses derivative financial instruments where appropriate in the administration of its asset/liability management strategies and to assist in the management of financial risks, including interest rate and foreign exchange risks. All of the Company's derivative financial instruments have been purchased over-the-counter and are held for hedging purposes, not for speculation.

The notional principal amount of derivative instruments represents an amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional principal amounts are frequently used as an indicator of business activity, however, they are not indicative of credit or market risk exposure and are not recognized in the financial statements. The following table classifies, by type, the notional principal amounts held at year end and the remaining term to maturity:

	Term To Maturity				1998	1997
	Within 1 Year	1 To 5 Years	5 To 10 Years	Over 10 Years	Total Notional Amount	Total Notional Amount
Interest rate swaps	$ 27,336	$ 46,500	$ 32,500	$ 11,507	$ 117,843	$ 109,125
Cross currency swaps	16,985	16,808	51,143	37,776	122,712	142,303
	$ 44,321	$ 63,308	$ 83,643	$ 49,283	$ 240,555	$ 251,428

Credit Exposure

Credit risk is the exposure to loss in the event of non-performance by the counterparty to the transaction. The Company evaluates and monitors the credit risk of its derivative financial instruments, in much the same way as the credit risks associated with its other financial instruments. All of the counterparties for the Company's derivative activities are financial institutions rated AA or better by independent rating agencies.

The following table provides a summary of the Company's derivative portfolio and related credit risk exposure.

Current credit risk represents the amount of loss that the Company would suffer if every counterparty to which the Company is exposed defaulted immediately (i.e. the current replacement cost of all outstanding derivative contracts with a gain or positive value). These amounts do not take into consideration legal contracts that permit offsetting of positions or the value of any collateral.

Credit equivalent amount represents the current credit risk exposure plus an estimate of the impact that future changes in interest and foreign currency rates and other indices would have, based upon a formula prescribed by OSFI.

Risk-weighted equivalent represents the credit risk equivalent weighted according to the creditworthiness of the counterparty, also as prescribed by OSFI.

1998	Notional Amounts	Current Credit risk	Credit Equivalent Amount	Risk Weighted Equivalent
Interest rate swaps	$ 117,843	$ 2,009	$ 825	$ 14
Cross currency swaps	122,712	383	3,200	51
	$ 240,555	$ 2,392	$ 4,025	$ 65

1997	Notional Amounts	Current Credit risk	Credit Equivalent Amount	Risk Weighted Equivalent
Interest rate swaps	$ 109,125	$ 2,260	$ 1,326	$ 21
Cross currency swaps	142,303	2,020	5,705	91
	$ 251.428	$ 4,280	$ 7,031	$ 112

The next table summarizes the fair value, as represented by the sum of the net unrealized gains and losses, accrued interest receivable and payable and premiums paid or received, of the Company's derivative portfolio as at December 31, segregating derivative instruments between those that are in a favourable or receivable position from those in an unfavourable or payable position. Fair value is obtained from external sources and is defined as the net present value of expected future cash flows of all contracts discounted at a market rate commensurate with the risks involved.

			1998			1997
	Favourable	(Unfavourable)	Net Fair Value	Favourable	(Unfavourable)	Net Fair Value
Interest rate swaps	$ 2,009	$ (147)	$ 1,862	$ 2,260	$ (403)	$ 1,857
Cross currency swaps	383	(16,619)	(16,236)	2,020	(11,169)	(9,149)
	$ 2,392	$ (16,766)	$ (14,374)	$ 4,280	$ (11,572)	$ (7,292)

6. Mortgage Securitization

The Company has sold for cash, without recourse, undivided interests in pools of mortgages insured under the National Housing Act by the Government of Canada. Gains or losses on the sale of the mortgages are amortized to income over the life of the underlying mortgage pools and are recognized within net investment income.

The Company retains the servicing right for these pools of mortgages that had outstanding principal balances of $149,580 (1997 - $150,766) at December 31. Servicing fee income, net of expenses, is recognized as earned and recorded within net investment income.

7. Policy Liabilities

(a) Nature and composition

Policy liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, policy dividends and expenses on policies in force at the valuation date. Policy liabilities are determined using accepted actuarial practice, according to standards established by the Canadian Institute of Actuaries ("CIA".)

The Company is active in three major lines of business: individual life insurance, savings and pension products and group life and health. The composition of the policy liabilities, net of reinsurance *(see note 8)* and the assets backing them are as follows:

1998	Life Insurance	Savings & Pensions	Group Life & Health	1998 Total
Participating policies	$ 474,411	$ 1,631	$ —	$ 476,042
Non-participating policies	678,685	1,182,211	585,283	2,446,179
Total policy liabilities	$ 1,153,096	$ 1,183,842	$ 585,283	$ 2,922,221
Assets backing liabilities:				
Bonds	$ .362,149	$ 475,538	$ 220,828	$ 1,058,515
Mortgages	488,180	681,095	294,453	1,463,728
Equities	166,437	—	—	166,437
Other	136.330	27,210	70,002	233,542
	$ 1,153,096	$ 1,183,842	$ 585,283	$ 2,922,221

1997	Life Insurance	Savings & Pensions	Group Life & Health	1997 Total
Participating policies	$ 485,178	$ 1,738	$ –	$ 486,812
Non-participating policies	563,445	1,437,294	387,530	2,388,364
Total policy liabilities	$ 1,048,623	$ 1,439,023	$ 387,530	$ 2,875,176
Assets backing liabilities:				
Bonds	$ 350,420	$ 500,039	$ 154,695	$ 1,005,154
Mortgages	483,065	931,935	210,305	1,624,305
Equities	109,159	–	–	109,159
Other	105,979	7,049	22,530	133,558
	$ 1,048,623	$ 1,439,023	$ 387,530	$ 2,875,176

The majority of the Company's policies are adjustable; that is, some or all of the policy factors (coverage, premium, credited interest rate) are reviewed regularly and can be updated in accordance with the adjustment or renewal terms of the policy. This gives the policyholder the opportunity to benefit from improving factors while taking some risk if factors worsen. This adjustability has a bearing on certain actuarial valuation considerations as noted below.

(b) Assumptions

The Company provides financial security products and must measure and manage risk. This is reflected in the valuation of policy liabilities. In light of the long-term risks and measurement uncertainties inherent in the life insurance business, policy liabilities are established using "best estimate" assumptions plus a margin for adverse deviation, separately for each variable. If emerging experience is less favourable than assumed in the valuation, profits would diminish and losses could result.

"Best estimate" assumptions cover mortality, morbidity, investment returns, rates of policy terminations (lapses), levels of operating expenses, and policyholder dividends. The methods for arriving at the most important of these assumptions are outlined below.

Mortality

For individual life insurance, the Company monitors its mortality on a regular basis and compares the results to the Canadian industry study conducted annually by the CIA. The valuation mortality assumption has been derived from a combination of the Company's experience and industry experience. An additional provision is included to recognize mortality risk related to AIDS not reflected in historical experience studies. In accordance with CIA Guidelines, this extra provision will be phased out by December 31, 2000.

For annuities, industry tables have been used because the Company's portfolio is too small to produce meaningful information on which to base future assumptions. The mortality rates in the industry tables are projected forward to the year of each future annuity payment to allow for continuing mortality improvement. This is an appropriately conservative adjustment to make in valuing annuities - it extends the assumed payment period which produces a larger policy liability.

Morbidity

The Company underwrites group disability income and individual and group disability waiver of premium. The Company's exposures to morbidity risk arise from the possibilities that more insureds will become disabled than expected and fewer claims will be terminated, by death or recovery, than assumed.

The Company uses a combination of intercompany experience studies and its own recent experience in setting its best estimate claim termination assumptions for disabled lives.

Investment Returns

The Company maintains notional asset portfolios matching specific segments of policy liabilities. This allows management to monitor and assess the success of the various investment strategies being employed. All assets in the Company's general fund are available to pay all liabilities of the general fund, with first preference to policy liabilities.

The Company has an Investment Policy Statement ("IPS") which articulates prudent person practices for its lending and portfolio management - practices a prudent person would apply to avoid undue risk of loss and obtain a reasonable rate of return. The IPS is approved by the Board of Directors and is subject to annual review. It documents governance with respect to asset mix, exposure limits, credit quality, interest rate risk and liquidity (discussed separately in Note 7(d)). The valuation of policy liabilities makes explicit provision for credit risk and interest rate risk.

i. Credit Risk

The Company has made provision in its financial statements for credit losses expected for assets it currently holds. Provisions have been made partly through reduction in the value of specific assets judged to be impaired and partly through a provision in the policy liabilities. The best estimate assumptions take into account current quality ratings for all investments, stress-testing analysis for the conventional mortgage portfolio, quality deterioration (ratings drift) and economic indicators that are considered linked to credit risk that may be cyclical.

The Company reviews its own experience and published credit loss studies to develop and maintain best estimate long term credit loss allowances for each distinct asset credit class. The policy liability produced using the average of these allowances may be supplemented if stress testing, economic trends or business plan forecasts indicate that credit losses are likely to be higher, in the near term, than the average of the long term allowances.

Recent credit losses have been less favourable than assumed and are largely attributable to the Company's mortgages on office and industrial properties in a few key urban areas. While losses from these sources decreased in 1998, continuing uncertainty with respect to a number of situations resulted in strengthening of the Company's accounting and actuarial provisions for future losses.

The policy liabilities would increase by 1.07 % (1997 - 1.03%) if the long-term credit loss assumption was increased to 150% of the assumption used.

ii. Interest Rate Risk

The Company's financial position may be affected by its exposure to interest rate risk. Interest rate risk is the risk of economic losses or gains arising from the reinvestment or disinvestment of cash flows. If the assets supporting the policy liabilities do not match the timing and amount of the policy obligations, interest rate losses or gains may occur due to changing interest rates in the future. The Company has an asset/liability management program that achieves an effective match.

For adjustable life and savings and pension products, assets and policy liabilities are closely matched by term and duration, and the reinvestment assumption is relatively unimportant. The cash flows are subjected to tests under a wide spectrum of possible economic scenarios (as represented by the yield curve and changes to it) and the policy liabilities are then increased directly where necessary to provide for future uncertainty.

Among the scenarios tested, the Company's current matching position for savings and pension products shows the most sensitivity to a rise in rates followed by a gradual return to the current yield curve. The difference between the result for this scenario and the one produced assuming the current yield curve is $1,800 (1997 - $4,600) or 0.1% (1997 - 0.3%) of the policy liabilities. As another measure of sensitivity, an immediate and parallel increase in interest rates of 1% across all maturities would increase policy liabilities by $300 (1997 - $900).

For guaranteed life insurance, benefit payments are typically later than asset cash flows which means that reinvestment assumptions are important to the valuation of this class of business. Projected policy cash flows and invested assets' cash flows are combined with future reinvestment rates and the Company's investment policy to determine assumed rates of return for all future years. The initial reinvestment rate (based primarily on the long term Government of Canada bond yield plus a spread) is assumed to be 5.87% in 1999, decreasing gradually to 4.5% (down from 5.0% assumed in 1997) after 20 years. The decrease in the ultimate reinvestment rate from 5.0% to 4.5% increased the policy liabilities by $2.3 million. Sensitivity testing of the largest class of guaranteed life insurance indicates that the policy liability for this class would increase by 0.7% (1997 - 2.8%) if the initial reinvestment rate assumed was lowered by 1%.

iii. Product Performance Guarantees

The Company guarantees minimum rates of return with respect to the savings elements of Adjustable and Universal Life insurance policies. These guarantees create a cost to the Company (are "in the money") whenever its investment strategy produces a return which is less than the sum of the guaranteed minimum returns payable to customers and its investment spread related costs. Some of the Company's outstanding guarantees were "in the money" at December 31, 1998. Guarantees for recent and future new issues have been revised so that the Company's future exposure will largely be limited to an existing closed block of inforce policies. The valuation of policy liabilities assumes "in the money" situations persist and incorporates a margin for future deterioration.

For segregated funds, the Company guarantees minimum proceeds on the maturity date of the policy or on the earlier death of the annuitant. These guarantees exceed those that the Company must provide as defined by regulation. The Company regularly monitors its exposure to these guarantees and measures their costs under a wide range of persistency and future fund performance scenarios (both randomly generated and predefined). The key risk to which the Company is exposed is very poor fund(s) performance combined with uncharacteristically good persistency. The product design and marketing focus have produced a widely dispersed maturity date profile for the inforce business that provides important diversification and risk mitigation. The policy liabilities include an amount for these guarantees. The method of determining this amount conforms with the approach described by the CIA in its 1998 Guidance Note.

Lapses

Lapse and surrender assumptions are important in valuing individual life insurance because the surrender value of a policy (Cash Surrender Value) can often be quite different than the value of future benefits to be derived by continuing the policy in force. This is most evident with a pure "Term to 100" policy which has no cash surrender value but has inherent increasing value as the policy ages because the premium is fixed, based on the issue age. Such a policy is often referred to as lapse-supported.

The Company derives lapse and surrender assumptions from internal studies, adjusted for consistency with the future expected economic and mortality environment described above. Separate lapse assumptions are used for permanent cash value business, for renewable term insurance and for lapse-supported business. CIA guidelines prescribe the maximum rate that can be assumed for lapse-supported policies to limit future lapse gains that are counted in the valuation. In setting lapse rates for renewable term insurance, it is assumed that extra lapses will occur at each renewal point because of the requirement to pay an increased premium. It is further assumed that healthy life insureds are more likely to lapse at that time than those whose health has deteriorated since issue, especially those that are now uninsurable.

The Company has a portfolio of lapse-supported policies which account for $204 million (1997 - $174 million) of policy liabilities. If the assumed lapse rates were lowered to 90% of the valuation assumptions (for example, if the valuation assumption for Term to 100 is 3% lapses per year, this sensitivity measure tests the impact of changing the assumed rate to 2.7% per year), the policy liabilities for this class of business would increase by 1.2% (1997 - 0.75%).

Policy Expenses

The policy liabilities provide for future maintenance expenses, premium tax, investment income tax, other taxes not integrated with income taxes, reinsurance costs, and renewal commissions to agents.

Policy maintenance expenses are derived from the Company's internal cost allocation studies with no allowance for anticipated future productivity gains. Future unit cost rates are assumed to increase at an inflation rate which is consistent with the future economic scenarios described above i.e. it is linked to the assumed yield curve on the basis that the real return is relatively fixed over time.

The continued investment in systems and service support processes for the life insurance business has resulted in an expected increase in per policy maintenance costs in 1999. While it is management's expectation that these expenditures will result in improvements in productivity and policy persistency, the valuation assumes that the higher level of maintenance costs will continue.

Policyholder Dividends

Policy liabilities for participating insurance include the present value of future policyholder dividends. The valuation assumes the current dividend scales continue indefinitely.

Margins for Adverse Deviations

The basic assumptions made in establishing policy benefit liabilities are best estimates for a range of possible outcomes. Companies are required to include a margin in each assumption which increases the policy liability otherwise produced to recognize the uncertainty in establishing these best estimates and to allow for the possible deterioration in experience. A range of allowable margins is prescribed by the CIA.

The Company generally maintains margins near the middle of the allowable ranges except:

- where the risk is shared with the policyholder through an adjustment feature and measurement processes are sophisticated, a lower margin is used; and
- where measurement uncertainty is greater, a higher margin is maintained.

(c) Changes In Provision For Future Policy Benefits

Changes in the provision for future policy benefits during the year were caused by the following business activities and changes in actuarial assumptions:

	1998	1997
Balance, beginning of year	$ 2,594,032	$ 2,707,123
Normal changes due to		
~ new policies	12,914	42,662
~ inforce policies	(118,542)	(186,777)
Acquisition of individual life	5,928	16,774
Changes in actuarial assumptions		
~ non-participating	2,500	5,700
~ participating	4,200	8,550
Balance, end of year	$ 2,501,032	$ 2,594,032

Valuation assumptions are reviewed and updated annually. There were a number of changes in actuarial assumptions in 1998. The most significant increases resulted from higher maintenance expenses ($3,300), lower assumed future interest rates ($4,400) and more conservative valuation of the segregated fund guarantees ($2,200). These changes were mitigated by higher assumed Group waiver of premium termination rates (-$2,000) and recognition of a portion of the tax benefit of Canadian stock dividends supporting policy liabilities (-$3,800).

The 1997 change also reflects a number of issues, the most significant increases resulted from additional provisions for guaranteed minimum returns of various adjustable life and universal life products, and changes in the lapse assumptions for three individual life policy classes. The assumed future decrease in certain dividend scales partially offset the other increases to the participating reserves.

(d) Liquidity Risk

It is important that any financial institution has access to cash to make policy benefit and expense payments as they come due. The Company targets liquid assets at least equal to 180% of liquid liabilities. The principal lever for maintaining an acceptable ratio is adjustment to its asset mix targets.

Liquid assets and liquid liabilities are determined by applying factors to the various subcomponents of assets and liabilities in recognition of distinct liquidity characteristics.

Liability Factors: 100% applies if an immediate book value cash out privilege exists, 0% if there is no cash value (e.g. immediate annuities or term insurance) and an intermediate factor for a liability with a meaningful cash out restriction (e.g. surrender charge or market value adjustment).

Assets Factors: 100% applies to readily marketable assets that have limited price volatility (e.g. government bonds, public bonds and preferred shares), 0% if the marketability of the assets is considered limited or very time-consuming (conventional mortgages and real estate) and an intermediate factor for other asset classes (e.g. private bonds, insured mortgages and common stocks).

Assets		1998 Carrying Value		1998 Liquid Amount		1997 Carrying Value		1997 Liquid Amount
Term deposits & government bonds	$	286,555	$	286,555	$	200,570	$	200,570
Public bonds		334,623		334,623		324,195		324,195
Private bonds		542,868		235,165		521,320		221,244
Insured mortgages		745,553		372,777		890,062		445,031
Conventional mortgages		774,025		–		792,973		–
Other		677,735		244,174		567,145		218,699
	$	3,361,359		1,473,294	$	3,296,265		1,409,739
less: short-term cash requirements				(85,396)				(92,994)
Liquid assets			$	1,387,898			$	1,316,745
Policy liabilities								
Individual annuities	$	985,566	$	267,499	$	1,135,046	$	322,468
Group pensions		198,276		66,247		303,977		103,242
Individual life insurance		1,153,096		233,419		1,048,623		206,323
Group life & health		585,283		20,694		387,530		23,652
	$	2,922,221	$	587,859	$	2,875,176	$	655,685
Liquidity ratio				236 %				201 %

8. Reinsurance

The Company reinsures excess risks with the four most prominent professional reinsurance companies operating in Canada - Munich Reinsurance, Reinsurance Group of America, Swiss Reinsurance and Lincoln National. The Company's maximum life retention limit is $500 (thousand) on any one life and, in aggregate, the Company retains 74% of all life insurance risks for its own account. It also reinsures a significant portion of its group LTD exposure.

Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. A contingent liability exists should an assuming company be unable to meet its obligations. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk with its reinsurers to minimize its exposure to losses from reinsurer insolvency.

The amounts shown in the financial statements are net of the following amounts relating to reinsurance ceded:

		1998		1997
Provision for future policy benefits	$	659,912	$	569,961
Premiums		99,108		85,144
Policy benefits		72,879		72,874
Commissions and operating expenses		3,966		5,238

9. Notes Payable to Reinsurers

The Company has issued notes payable to reinsurers that bear interest at a rate equal to the rate of return on a specified portfolio of assets. At December 31, 1998, the outstanding balance owing under these notes was $113,126 (1997 - $114,473).

10. Deferred Net Gains

Deferred net gains (losses) on disposal of invested assets is comprised of the following:

		1998		1997
Bonds	$	36,113	$	38,015
Mortgages		3,355		502
Equities		4,999		5,909
Real estate		(1,889)		(785)
	$	42,578	$	43,641

11. Other Liabilities

At December 31, other liabilities consist of:

	1998	1997
Accounts payable	$ 17,902	$ 20,313
Accrued liabilities	6,877	6,333
Acquisition liabilities	7,675	8,706
Due to segregated funds	—	10,235
Taxes, licenses, fees payable	3,662	1,399
Accrued interest on subordinated debt	1,109	995
Miscellaneous	11,568	7,120
	$ 48,793	$ 55,101

12. Subordinated Debt

The subordinated debt is payable to the parent company, bears interest at 7.5% per annum payable semi-annually and matures October 15, 2007. The debt is subordinated in right of payment to all policy liabilities of the Company and all other liabilities except those that, by their terms, rank equally with or subordinate to this debt. The fair value of the subordinated debt is calculated by discounting scheduled repayments at current market rates and is estimated to be $72,731 (1997 - $70,189).

Total interest expense of $5,250 (1997 - $4,625) related to this debt is included in the statements of income.

13. Distribution of Income

Distributions of income to shareholders and to participating policyholders are established by resolutions of the Board of Directors. From time to time, the Board of Directors sets apart a portion of the income of the participating account as safe and proper for distribution as dividends or bonuses. Of the amount set apart, the shareholders are entitled to a portion as specified in the governing statute. The amount eligible for future transfer to shareholders can be transferred only when further dividends are paid to participating policyholders. The cumulative amount eligible for future transfer of $224 at December 31, 1998 (1997 - $174) is included in the participating account.

As at December 31, 1998, the cumulative amount of $2,326 (1997 - $1,804) of the participating account has been allocated to policyholders but has not yet been distributed by way of declared dividends.

14. Share Capital

		1998	1997
Authorized:			
3,960,000	first preferred shares issuable in series		
200,000	common shares		
Issued:			
1,400,000	first preferred shares, series A non-voting, cumulative and redeemable at the Company's option at their par value of $25.00	$ 35,000	$ 35,000
189,294	common shares	53,745	53,745
		$ 88,745	$ 88,745

15. Investment Income

Investment income was derived from the following sources:

	1998	1997
Bonds and debentures	$ 77,642	$ 82,422
Mortgages	124,757	143,830
Equities	23,663	29,299
Real estate	16,435	16,102
Policy loans	5,345	4,907
Short-term investments	3,442	2,156
Amortization of deferred gains and losses		
Bonds and debentures	6,210	5,697
Mortgages	4,989	(136)
Equities	1,688	2,147
Real estate	(1,064)	(968)
Investment expenses	(21,965)	(22,749)
	$ 241,142	$ 262,707

16. Income Taxes

The income tax expense (recovery) for the year consists of:

	1998	1997
Current	$ 3,728	$ 15,407
Deferred	9,205	(5,790)
	$ 12,933	$ 9,617

The provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	1998	1997
Provision for income taxes at statutory rate	43.7 %	43.7 %
Increase (decrease) from statutory rate:		
Tax reduction on Canadian dividends	(18.5)	(23.9)
Large corporations tax	2.5	2.0
Discounting of future taxes	0.1	5.1
Change in statutory rates	—	0.2
Other	2.4	3.0
	30.2 %	30.1 %

17. Net Income to Shareholders

Net income to shareholders has been derived from the following sources:

	1998	1997
Participating business	$ 1,425	$ 1,564
Non-participating business	27,953	25,584
	$ 29,378	$ 27,148

18. Earnings Per Common Share

Earnings per common share ("EPS") is calculated after adjusting net income for the amount of income attributable to preferred shareholders as follows:

	1998	1997
Net income to shareholders	$ 29,378	$ 27,148
Deduct:		
Preferred shareholder dividends	1,656	1,219
Net income attributable to common shareholders	$ 27,722	$ 25,929
EPS attributable to common shareholders (in dollars)	$ 146.45	$ 136.98

19. Pension Plan

The Company maintains a defined benefit pension plan which covers substantially all of its employees. At December 31, 1998, the accrued benefit obligation was $47,960 (1997 - $43,512). The value of assets recorded in the plan was $74,819 (1997 - $70,210).

20. Contingent Liabilities

From time to time in connection with its operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal expenses in excess of amounts provided for in policy liabilities and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

21. Year 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect the Company's ability to conduct normal business operations.

The Company has had a Year 2000 project underway since the summer of 1997. The project has been organized to address the various internal and external systems and business relationships affecting the ongoing operations. As at December 31, 1998, the Company has completed the planned activities relating to the identification and assessment phases and the remediation and testing phases are ongoing. It is not possible however to have absolute assurance that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

22. Related Party Transactions

During 1997, the Company approved and advanced $11,000 to an investment fund. The administrator of the fund is related to a member of the Board of Directors. The related party transactions described in the preceding sentence and in note 12 were approved by the Conduct Review Committee of the Board of Directors.

23. Segmented Information

The Company operates in the Canadian life insurance industry and conducts its operations in two business line divisions that cover three operating segments: Life Insurance, Savings & Pensions and Group. Life insurance includes traditional whole and term life products as well as universal life. Savings & Pensions include individual and group immediate and deferred annuities, guaranteed savings and segregated fund investments. Group includes life and accident & sickness insurance.

The Life and Savings & Pensions segments are managed under the Retail Division because they share the same distribution channels and have common marketing strategies. The Group Division is managed separately.

The Company's support systems are comprised of two divisions. First, the Investments Division has responsibility for ensuring the assets supporting the policy liabilities are appropriately invested. Secondly, the Corporate Division is responsible for the staff, facility and technology infrastructures, capital, asset/liability matching and liquidity management, compliance and corporate governance. The costs for these support divisions are allocated to the business segments.

The following chart shows summarized operating income by segment. Interest on subordinated debt and income taxes are not allocated to operating segments.

1998	Life Insurance	Savings & Pensions	Group Life & Health	1998 Total
Revenue				
Premiums	$ 205,082	$ 63,948	$ 285,473	$ 554,503
Investment income	84,866	120,111	36,165	241,142
Other	5,530	53,716	6,796	66,042
	295,478	237,775	328,434	861,687
Policy benefits and expenses				
Policy benefits paid and accrued	193,823	29,467	276,864	500,154
Commissions, selling and operating expenses	85,909	72,155	42,508	200,572
Transfer to segregated funds	(192)	103,481	–	103,289
Interest on notes payable	9,539	–	–	9,539
	289,079	205,103	319,072	813,554
Operating income before interest on subordinated debt and taxes	$ 6,399	$ 32,672	$ 9,062	$ 48,133

1997	Life Insurance	Savings & Pensions	Group Life & Health	1997 Total
Revenue				
Premiums	$ 171,000	$ 110,150	$ 264,970	$ 546,120
Investment income	86,850	143,351	32,506	262,707
Other	6,233	28,747	4,446	39,426
	264,083	282,248	301,922	848,253
Policy benefits and expenses				
Policy benefits paid and accrued	167,253	60,993	258,904	487,150
Commissions, selling and operating expenses	80,671	55,564	38,789	175,024
Transfer to segregated funds	(586)	140,667	–	140,081
Interest on notes payable	9,386	–	–	9,386
	256,724	257,224	297,693	811,641
Operating income before interest on subordinated debt and taxes	$ 7,359	$ 25,024	$ 4,229	$ 36,612

For policy liabilities and supporting assets see note 7.

24. Comparative Figures

Certain of the 1997 figures presented have been reclassified to conform to the presentation adopted in 1998.

BOARD OF DIRECTORS

As at December 31, 1998

William A. Black (11/11)
Halifax, Nova Scotia 1,4,5,6
President and Chief Executive Officer
The Maritime Life Assurance Company

Ronald B. Coleman (17/17)
Calgary, Alberta 2,3,5
Chairman
Dominion Equity Resource Fund Ltd.

J. Dickson Crawford (15/15)
Mahone Bay, Nova Scotia 4,6

Kevin Crowley (6,6)
Boston, Massachusetts 4
Vice President, General Agency Department
John Hancock Mutual Life Insurance Company

John R. D'Eathe (9/9)
Vancouver, British Columbia 4
President
Freehold Development Canada Ltd.

Rob P. Dexter, Q.C. (13/15)
Halifax, Nova Scotia 2,5
Chairman and Chief Executive Officer
Maritime Marlin Travel

Edward P. Dowd (11/12)
Boston, Massachusetts 5
Real Estate Investment Group
John Hancock Mutual Life Insurance Company



MGen. (Ret'd) M. Scott Eichel (9/9)
Victoria, British Columbia 5

Lawrence J. Hayes, Q.C. (19/19)
Halifax, Nova Scotia 3,5,6
McInnes, Cooper & Robertson

Jean C. Lavoie (15/15)
Montréal, Québec 2,5,6
Raymond, Chabot, Grant Thornton

Douglas G. MacKenzie (15/17)
Toronto, Ontario 2,3,4
President, Chief Executive Officer and Vice Chairman
Commercial Alcohols Inc.

Thomas E. Moloney (13/16)
Boston, Massachusetts 1,5,6
Chief Financial Officer
John Hancock Mutual Life Insurance Company

Jocelyne Pelchat (17/17)
Ville Mont-Royal, Québec, 3,4,6
Chairman and CEO
Entreprises Pelchat Moïse Inc.





Anna Porter (6/6)
Toronto, Ontario 4
Publisher and CEO
Key Porter Books

Robert R. Reitano (8/13)
Boston, Massachusetts 2,5
Vice President, Investment Policy and Research
John Hancock Mutual Life Insurance Company

Dr. Tom Traves (6/11)
Halifax, Nova Scotia 3,4
President and Vice-Chancellor
Dalhousie University

The bracketed numbers following each name indicate total number of board and committee meetings which the director actually attended followed by the number they were eligible to attend in the 12 months ended December 31, 1998. The numbers following the director's home city indicate the board committee memberships.

1 - Member of the Executive Committee
2 - Member of the Audit Committee
3 - Member of the Conduct Review Committee
4 - Member of the Customer Issues Committee
5 - Member of the Investment Committee
6 - Member of the Personnel and Compensation Committee

HONOURARY DIRECTORS

Dr. D. Andrew Eisenhauer
Lunenburg, Nova Scotia

Dr. Reva Gerstein, O.C.
Toronto, Ontario

John W. Lindsay Sr.
Dartmouth, Nova Scotia
Chairman of the Board
J.W. Lindsay Enterprise Ltd.

Arthur R. Lundrigan
Corner Brook, Newfoundland

EXECUTIVE MANAGEMENT

William A. Black, FCIA, FSA
President and
Chief Executive Officer

Norman Ayoub, CLU
Senior Vice President,
Retail Marketing

Kirk D. McIntyre, FCIA, FSA
Senior Vice President,
Retail Services

Robert M. Nicholas
Senior Vice President,
Group Insurance

Philip J. Pothier, FCIA, FSA, FLMI
Senior Vice President and
Chief Financial Officer

Peter A. Stuart, CFA
Senior Vice President and
Chief Investment Officer

Bette Andrews
Vice President, Group Insurance,
Central Region

Madeleine N. Clare, FLMI, ISP
Vice President, Technology and
Computing Services

Norm Collins, FCIA, FSA, FLMI
Vice President, Corporate Actuarial

Byron Corner, FCIA, FSA
Vice President and Chief Actuary

Daniel Dessureault, ASA
Vice President,
National Sales and Distribution

Erin Flannery, FLMI, ACS, CLU
Vice President,
Corporate and Public Affairs

Derek Frail, FCIA, FSA
Vice President,
Retail Product Development

Heather M. Hannon, LL.B.
Vice President,
Counsel and Corporate Secretary

Al Hillier, FLMI, CDP
Vice President and
Chief Technology Officer

Jan Imeson, CA
Vice President and Controller

Joanne Keigan, FCIA, FSA
Vice President,
Group Finance and Actuarial

Ann M. Kyle
Vice President, Group Insurance,
Western Region and Administration

J. Paul Lynch
Vice President,
Retail Customer Service

Joseph J. Malek
Vice President, Retail Systems

Gary E. Martin, FLMI, CFA
Vice President, Bonds and Corporate Finance

Ted M. Moffatt, ASA, FLMI (M)
Vice President, Retail Finance

Terry Morrison
Vice President, Group Marketing and
Eastern Region

Shirley L. Mosher, FLMI
Vice President, New Business and
Agency Services

Catharine Penney, CA
Vice President, Internal Audit

A. Harrison Robbins, FCA
Vice President, Pensions

Kirk L.R. Sievert, CMA
Vice President, Retail Marketing

David M. Star
Vice President, Business Development
Investment Products

C. Dominick Williams, FLMI
Vice President, Investments

Don Wilson
Vice President, National Accounts
Sales and Distribution

Catherine J. Woodman
Vice President, Human Resources

OVERVIEW OF CORPORATE GOVERNANCE PRACTICES

Good corporate governance is the foundation of a financially solid company and underpins the financial well-being of all Maritime Life stakeholders - policyholders, shareholders and our distribution partners. It is of necessity an ever-evolving science and each year Maritime Life adds to the policies and practices which safeguard our strong financial position.

During 1998, we achieved some major milestones:

- The Audit Committee mandate was revised to encompass the requirement for annual external audits of segregated funds that the company manages, to include review of self-assessments under the Standards for Sound Business and Financial Practices Guidelines as well as recognition of minor legislative changes due to revision of the Insurance Companies Act.
- The responsibilities of our Conduct Review Committee were greatly expanded in the newly formed Conduct Review and Corporate Governance Committee, committed to a formal overseeing of governance and compliance matters.
- The Customer Issues Committee introduced its mandate to the Board and reiterated its commitment to addressing matters of concern to our policyholders and our distribution partners.

Mandate of the Board of Directors

The Board of Directors supervises the management of the business of Maritime Life. The Board expects management to operate the company in a financially sound and ethical manner, fostering growth and profit, and to provide clear and concise information on the operations and proposed future actions. Key to the Board's supervision is the approval of strategic business and financial plans. In addition, the Board approves annual reports and financials statements and recommends the appointment of the Company's external auditors to the shareholders.

The Board is assisted in fulfilling its responsibilities through the use and work of committees. The Executive Committee acts on behalf of the Board in connection with Company business between sittings of the Board of Directors. The Investment Committee manages the investing and lending of the funds of the Company in accordance with the provisions of the Insurance Companies Act of Canada. The Conduct Review and Corporate Governance Committee monitors related party transactions and reviews the corporate governance functions of the Company. The Customer Issues Committee reviews marketing strategies, market conduct and customer satisfaction levels and approves the dividend scale for participating policies. The Audit Committee's mandate is to review the Company's internal controls, accounting, auditing and reporting practices, and the adequacy of disclosure to policyholders and shareholders. The Personnel and Compensation Committee approves compensation for employees of the Company, recommends appointment of officers and advises management on human resource related issues.

Composition of the Board of Directors

Maritime Life looks for breadth of expertise in recruiting new directors, seeking a diversity of professional backgrounds and national representation. In addition, the Company benefits from the experience of the Board members drawn from our parent, John Hancock.

The number of directors of the Company can range from 12 to 18. We currently have 16 directors. Only one of Maritime Life's directors is not independent of management. Mr. William A. Black is a full-time officer of the Company. Of the remaining 15 independent directors, 11 are unrelated to the company in any manner whatsoever, while four directors are employed by Maritime Life's parent.

All of Maritime Life's common shares are owned by John Hancock Mutual Life Insurance Company through a Canadian holding company. Hancock executives are actively involved on the Company's Board and shareholder feedback is provided for in this manner.

DIVIDEND SCALE

Dividend scales for participating insurance policies are declared on an annual basis and distributed according to the contract. The amount of surplus available for distribution is influenced by trends in earnings and experience, by dividend guarantees and by the need to maintain the long-term vitality of the participating fund. Maritime Life uses the contribution principle to allocate divisible surplus to individual policies in proportion to their contribution to earnings. The allocation process strives to ensure reasonable equity among different classes and generations of participating policies as well as equity among individual policies within each class. The determination of dividends complies with regulatory and professional standards.

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Annual Meeting
March 10, 1999, 11:00 am, 2701 Dutch Village Road, Halifax, Nova Scotia

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